



Residential Land Development and Construction Trends + Outlook

2021 & 2022

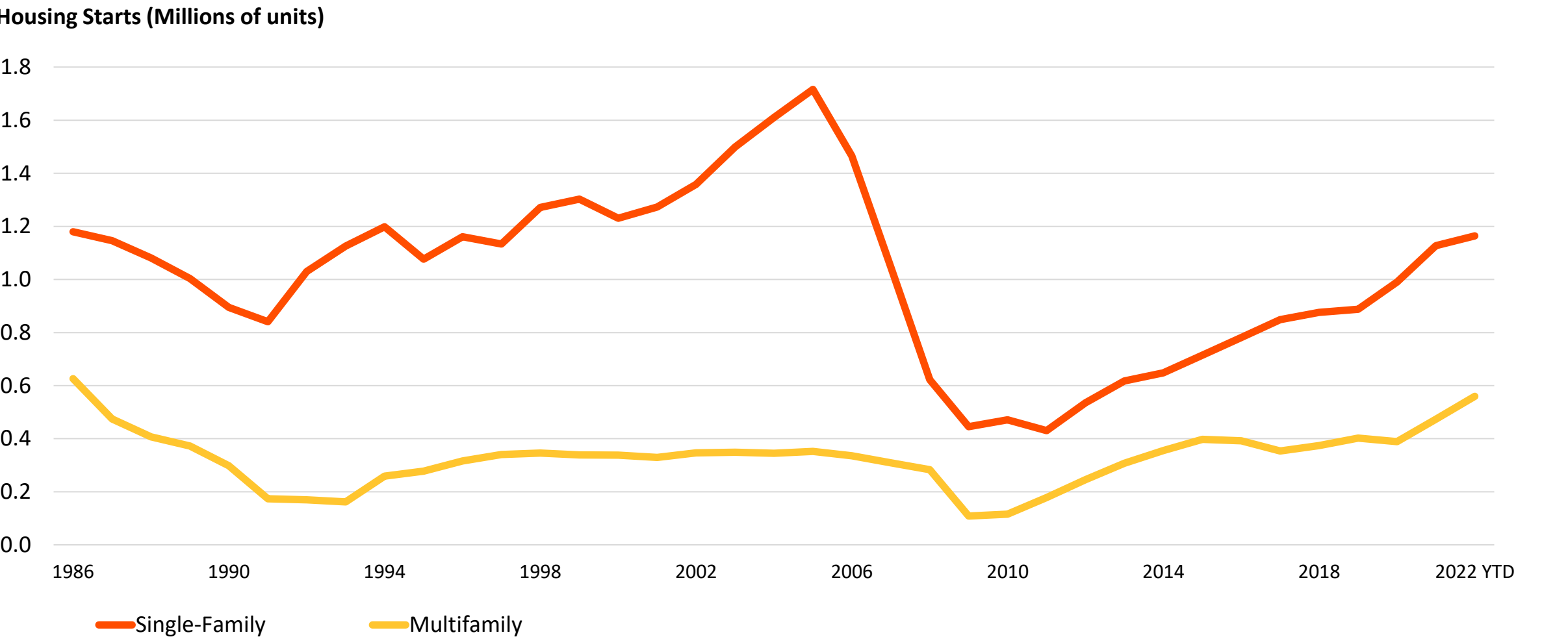
Andrew Clark
Home Builders Association of Virginia



Major Themes of 2021 and 2022

- Rising Demand for Housing
- Construction Activity
- Cost of Construction Materials
- Eroding Affordability
- Supply/Demand Imbalance and Rising Housing Costs
- Current Impediments to Increasing Supply & Addressing Housing Affordability

New Construction Picked Up Last Year and Remains on a Strong Upward Trend

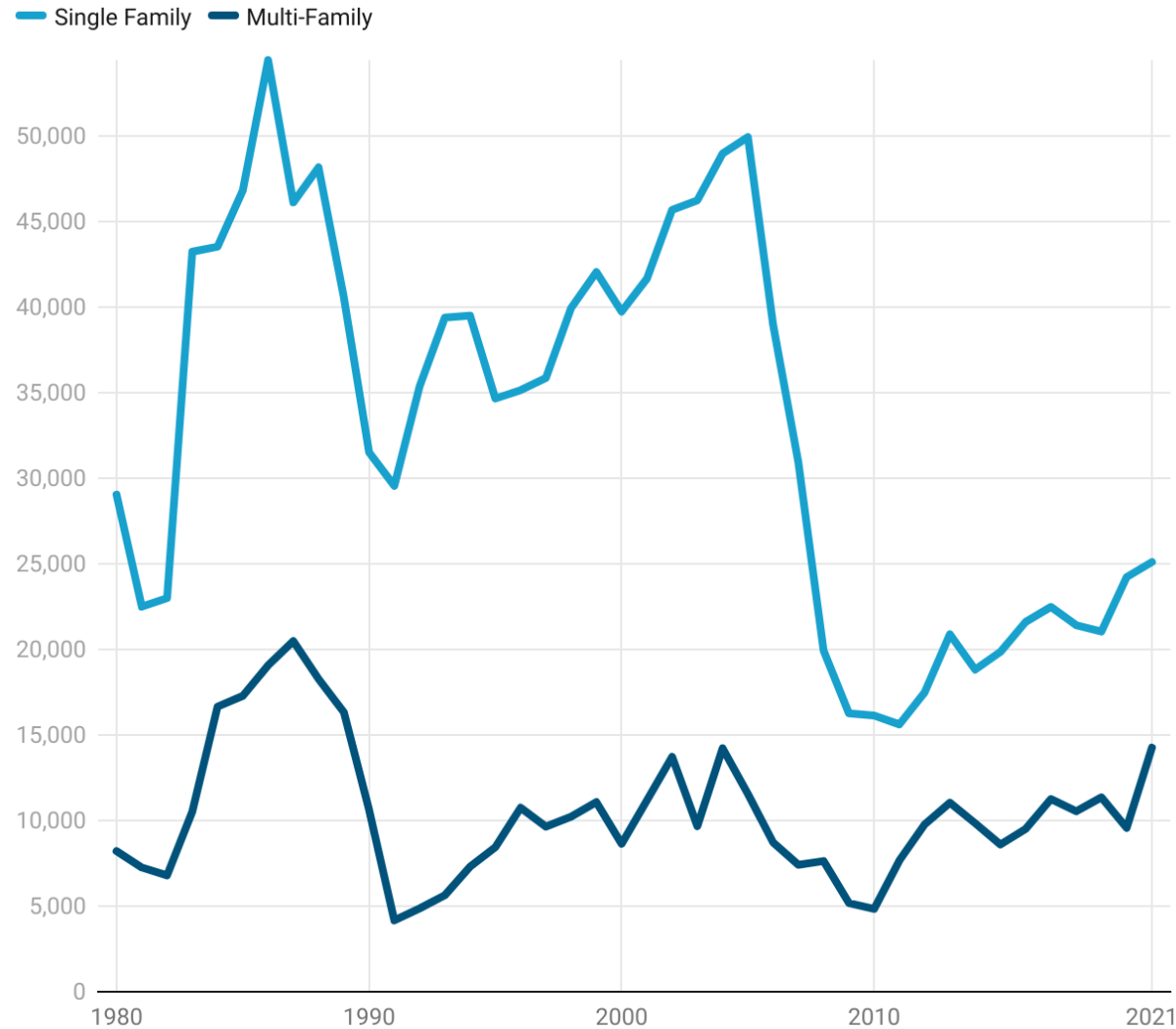


Note: Housing starts for 2022 are the average of the seasonally adjusted annual rate for January–April.

Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

Virginia – Building Permits

1980 – 2021



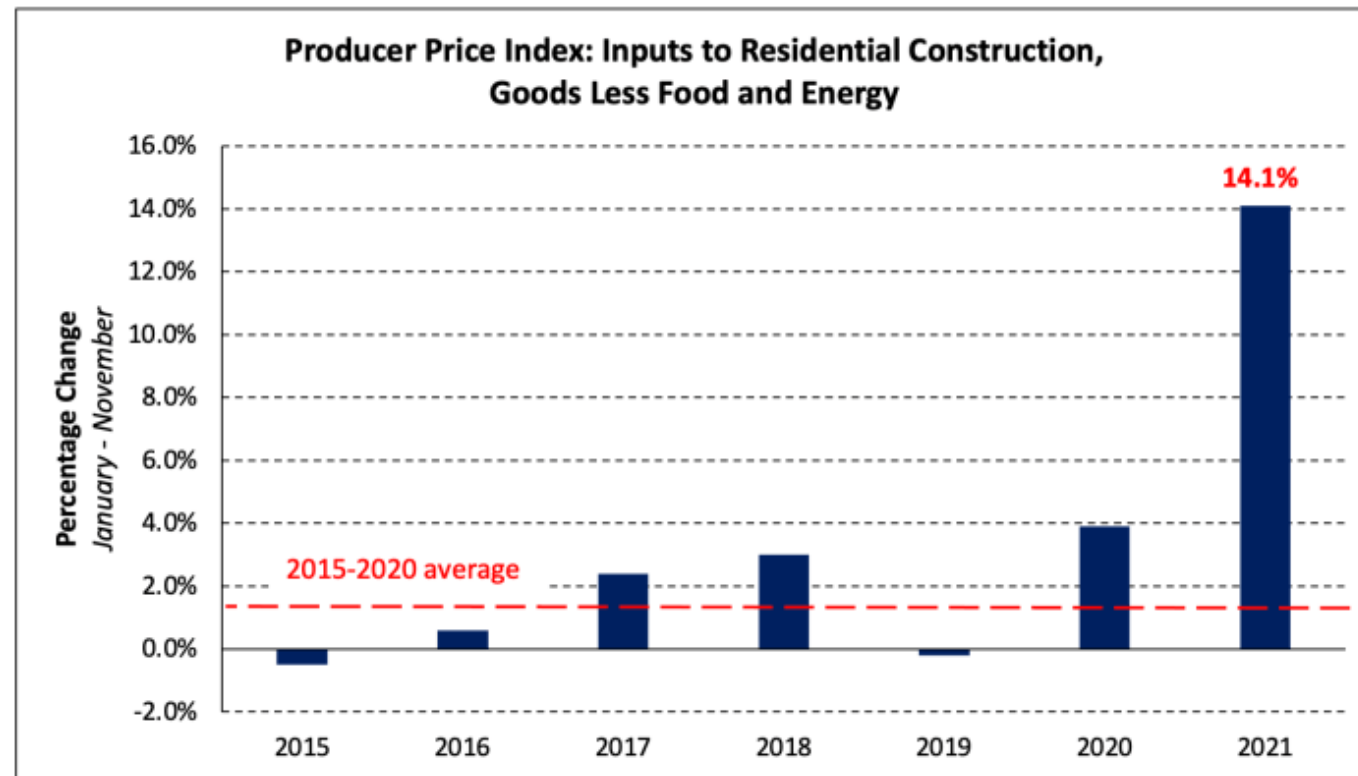
Single Family (2021): 25,118

3.6% increase from 2020 (+880 permits)

Multi-Family (2021): 14,270

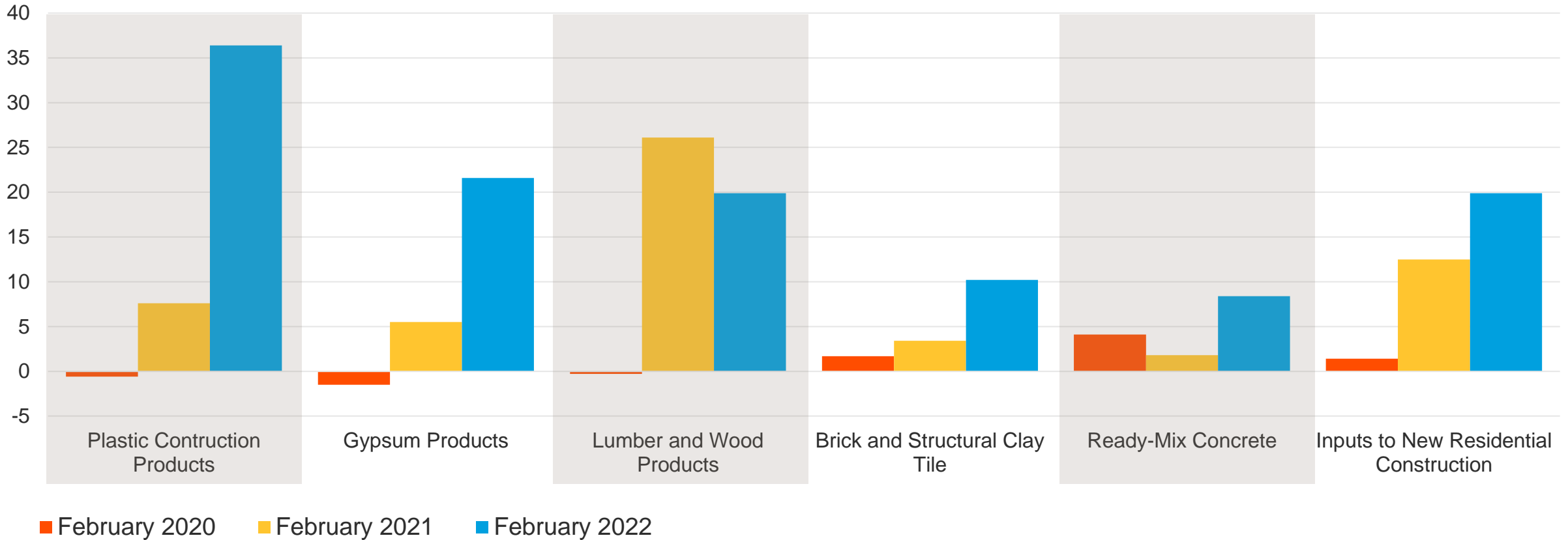
49% increase from 2020

Historic Increases in Cost of Construction Materials



Costs of Building Materials Have Soared Since the Start of the Pandemic

Year-over-Year Change in Prices (Percent)



Note: Inputs to new residential construction are not a composite of the other components, and exclude capital, labor, and imports.

Source: JCHS tabulations of US Bureau of Labor Statistics, Producer Price Indexes.

Declining Affordability:

Interest Rate Hikes + Home Price Growth

	April 2021	April 2022	Change 2021–2022
Interest Rate (Percent)	3.06	4.98	1.92
Median Home Price (Dollars)	340,700	391,200	50,500
Downpayment & Closing Costs	22,100	25,400	3,300
Monthly Mortgage Payment	1,400	2,020	630
Total Monthly Owner Costs	2,060	2,780	720
Annual Income Needed	79,600	107,600	28,000

*Assumes a 3.5% downpayment on a 30-year fixed-rate loan with zero points, 0.85% mortgage insurance, 0.35% property taxes, 1.15% property taxes, 3% closing costs, and a maximum 31% debt-to-income ratio.



Despite Strong Demand.... *Supply Headwinds*

- *Decades of Underbuilding*
- 1968 – 2020: Housing stock grew at an average annual rate of 1.7%
 - 2000 – 2020: 1%
 - 2010 – 2020: 0.7%
- Supply/Demand Imbalance
- Upward Pressure on Home Prices and Rents

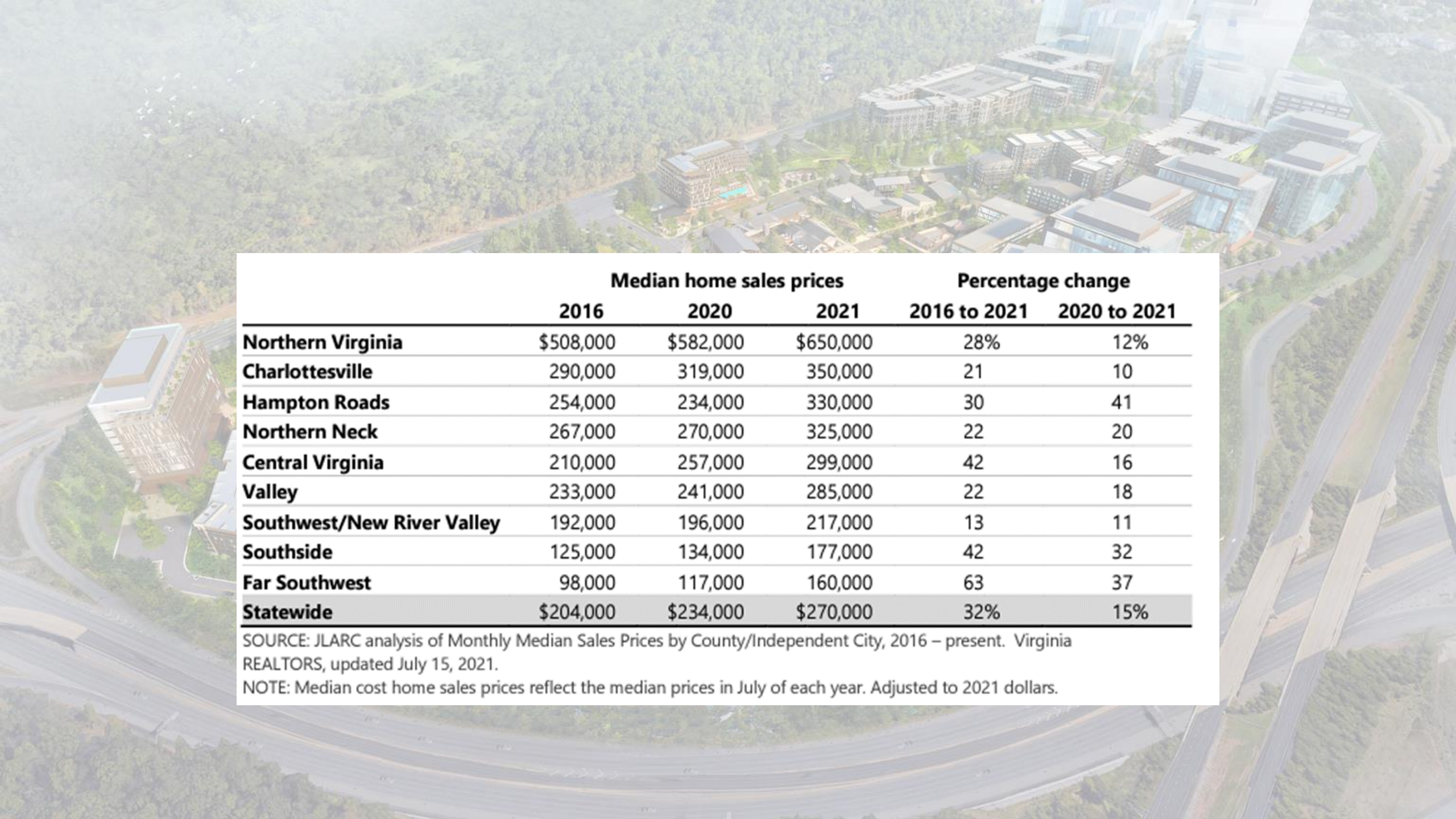
Housing Underproduction, 2001-2020 (Units)

	New Housing Construction Annual Averages*	
	U.S.	Virginia
1968-2000	1,501,000	49,747
2001-2020	1,225,000	37,592
<i>Annual Gap</i>	<i>276,000</i>	<i>12,155</i>
<i>Cumulative Gap Since 2001</i>	<i>5,520,000</i>	<i>243,099</i>

Source: U.S. Census Bureau, NAR, Virginia REALTORS®

Note: U.S. data are housing completions, while Virginia data are permits for new housing construction. Historic state-level housing completions are not available. Permits provide a reasonable estimate of new housing construction in Virginia.

Housing Underproduction in Virginia



	Median home sales prices			Percentage change	
	2016	2020	2021	2016 to 2021	2020 to 2021
Northern Virginia	\$508,000	\$582,000	\$650,000	28%	12%
Charlottesville	290,000	319,000	350,000	21	10
Hampton Roads	254,000	234,000	330,000	30	41
Northern Neck	267,000	270,000	325,000	22	20
Central Virginia	210,000	257,000	299,000	42	16
Valley	233,000	241,000	285,000	22	18
Southwest/New River Valley	192,000	196,000	217,000	13	11
Southside	125,000	134,000	177,000	42	32
Far Southwest	98,000	117,000	160,000	63	37
Statewide	\$204,000	\$234,000	\$270,000	32%	15%

SOURCE: JLARC analysis of Monthly Median Sales Prices by County/Independent City, 2016 – present. Virginia REALTORS, updated July 15, 2021.

NOTE: Median cost home sales prices reflect the median prices in July of each year. Adjusted to 2021 dollars.

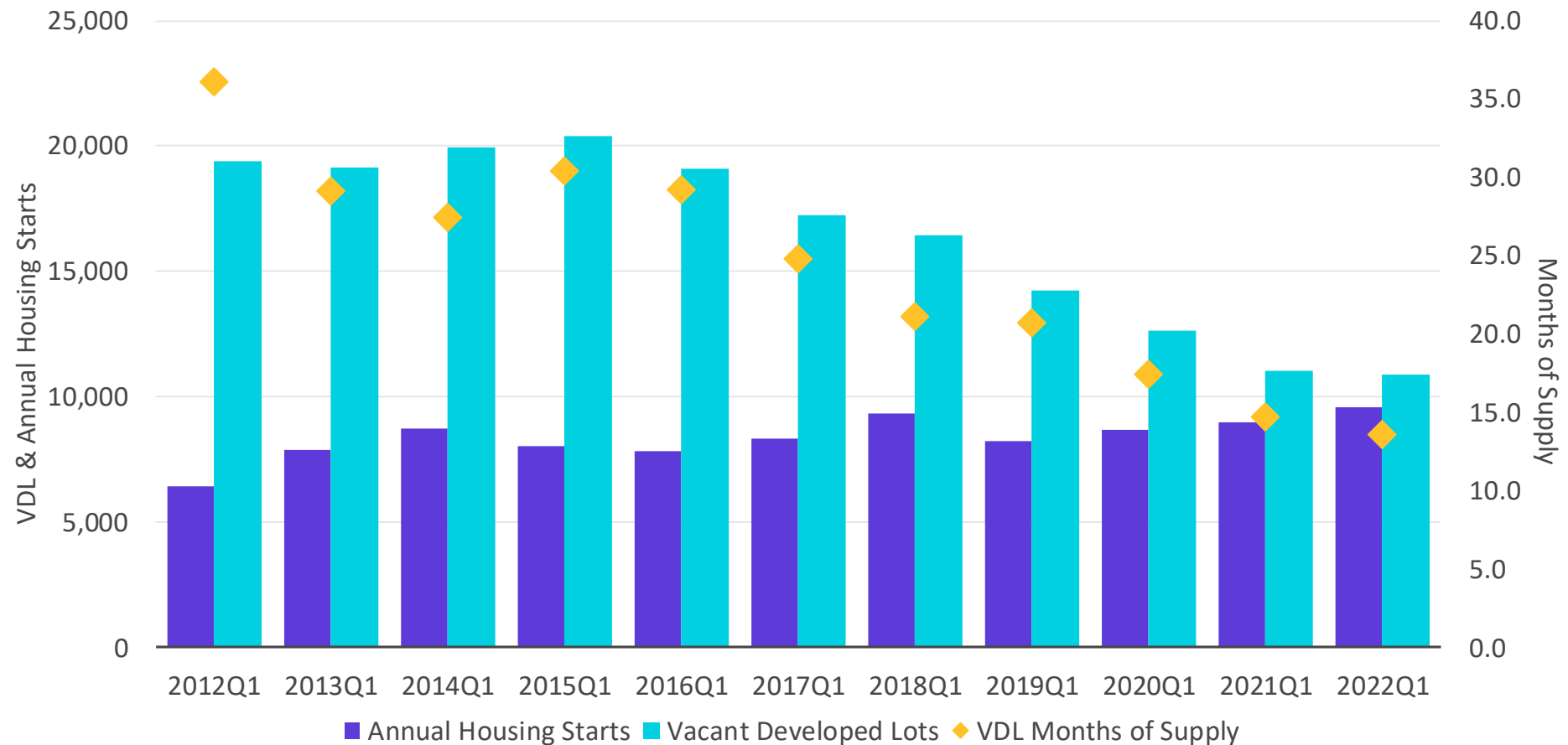
Pipeline of Developed Lots

- Significant slowdown in land development during and after Great Recession
 - Gradual, partial recovery
- Pandemic-era (2020-2021) construction activity further constrained lot supply

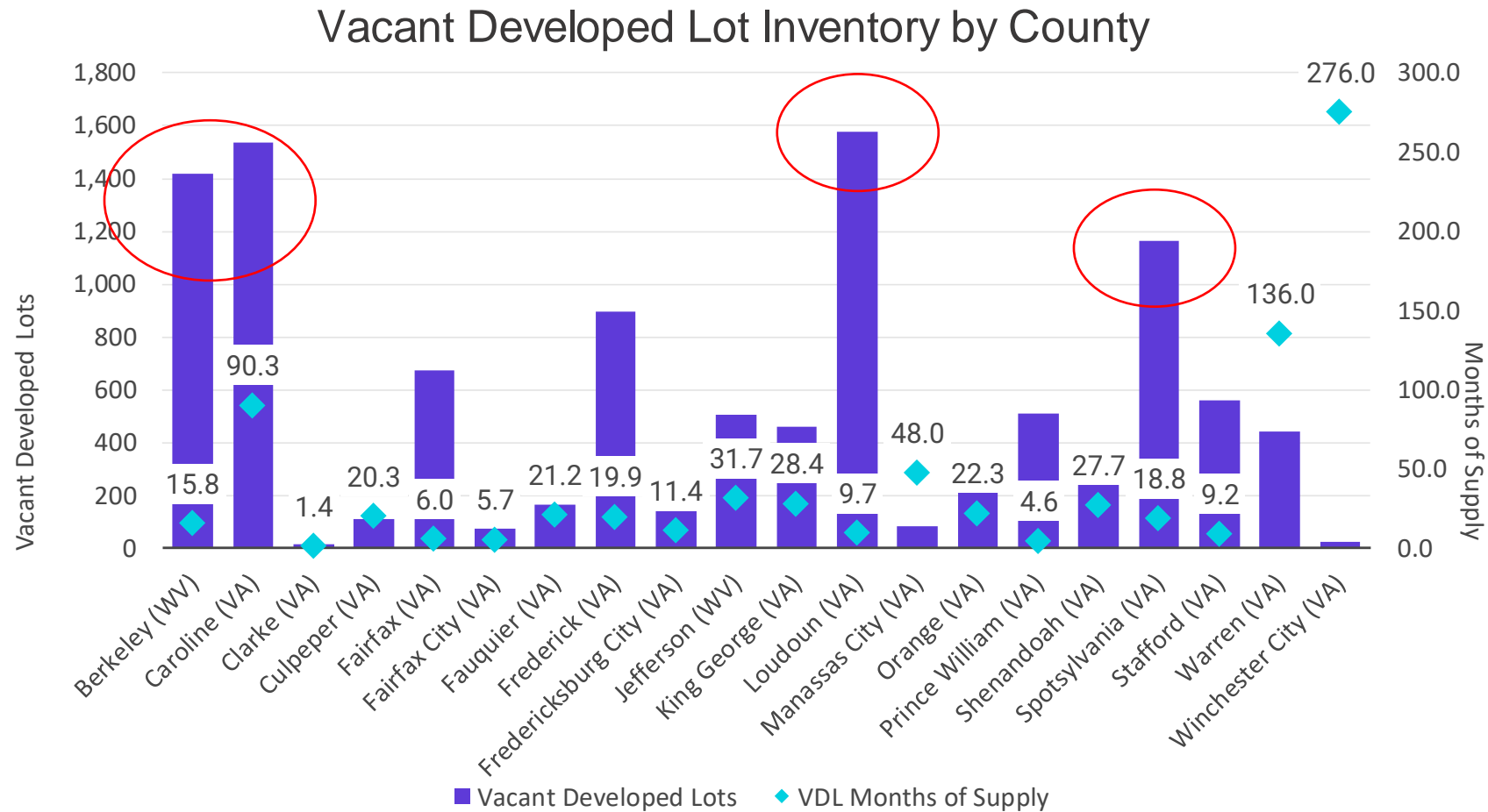


Lot inventories have declined from 36 months in 2012 to a 12-month supply in 2022.

Vacant Developed Lot Inventory & Annual Housing Starts

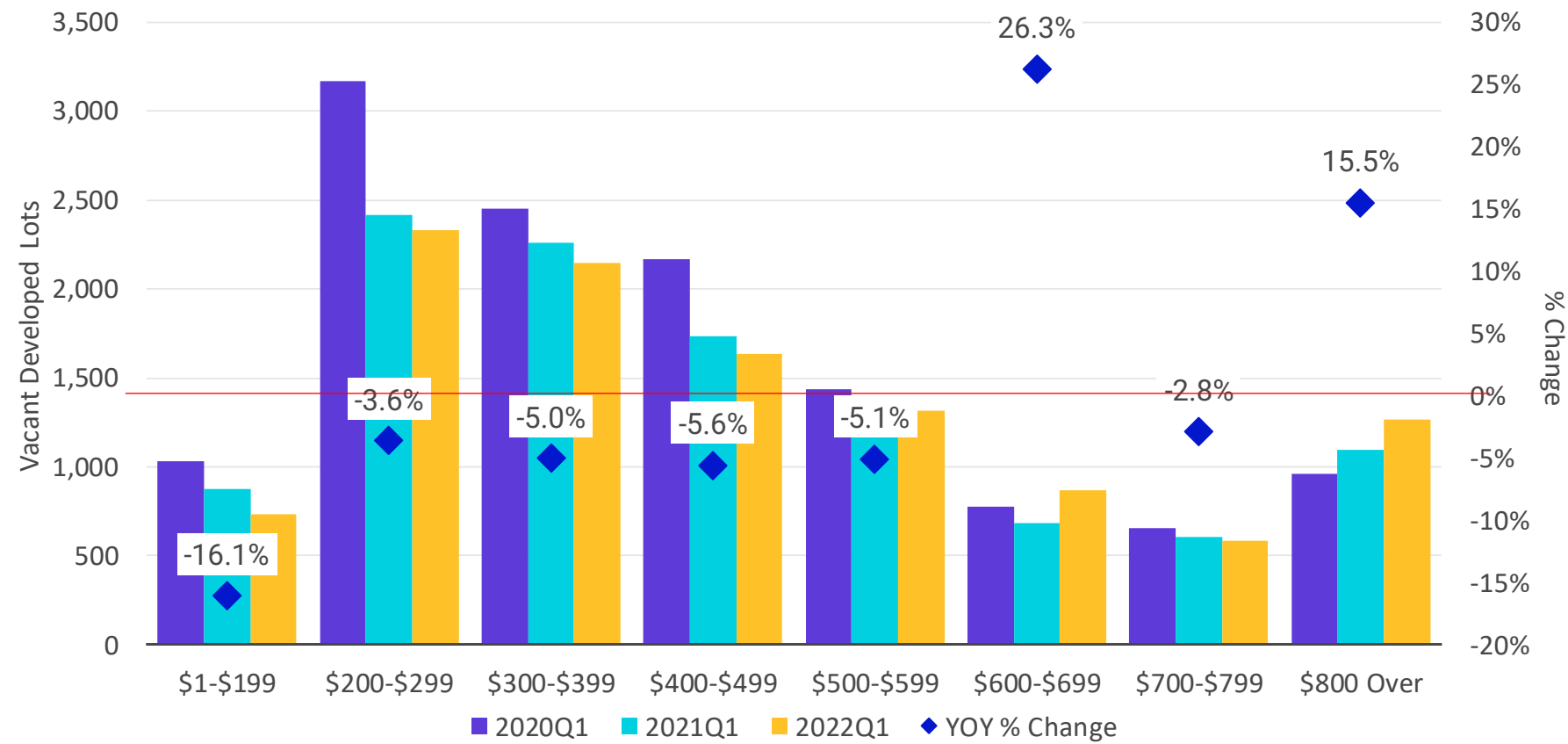


Largest lot inventories are in outer markets and Loudoun.



Declining lot inventory in all but the \$600K-\$699K price range

Vacant Developed Lot Inventory Trend by Price Range



Lot Supply Challenges

- **Delays due to understaffed/underfunded regulatory agencies**
 - U.S. Army Corps of Engineers
 - Responsible for reviewing development applications
 - Permit reviews, inspecting wetland/stream delineations, approval of new mitigation banks
 - Understaffed: 20% below 2015 staffing levels (40 FTEs from 52 FTEs)
 - VA Department of Environmental Quality
- **Prolonged Local Review and Approval Process**
 - Multiple rounds of reviews and comments
 - Subjective interpretation/application of ordinances and development standards
 - Uncertainty of outcome



Local Land-Use, Zoning, and Development Requirements

- Obama Administration's "Housing Development Toolkit":
 - "Over the past three decades, local barriers to housing development have intensified, particularly in the high-growth metropolitan areas increasingly fueling the national economy."
- Harvard Joint Center for Housing Studies
 - "Restrictive land use regulations are among the most significant barriers to housing production."
- Mercatus Center at George Mason University
 - "A new study for the Mercatus Center...finds that these regulations reduce the supply of housing relative to what it would likely be in a free market and ultimately increase housing costs for consumers."
- CATO Institute:
 - "These constraints on land development within cities and suburbs aim to achieve various safety, environmental, and aesthetic goals. But the regulations have also tended to reduce the supply of housing, including multifamily and low-income housing. With reduced supply, many U.S. cities suffer from housing affordability problems."

"Local zoning affects affordable housing supply, particularly in fast growing localities."

- "Addressing Virginia's affordable housing shortage will require construction of new affordable housing, but local zoning ordinances can be a substantial barrier to such new construction."
- "Localities design their own zoning ordinances, and overly restrictive ordinances can limit housing supply—especially affordable housing supply."



Local Land-Use, Zoning, and Development Requirements

- Examples:
 - Lot Requirements
 - Minimum lot sizes, height restrictions, buffers/setbacks, yard size requirements
 - Architectural/Building Material Requirements
 - Community Design Requirements
- Authorized by the General Assembly; implemented at the local level
- Used to accomplish public safety, environmental, and aesthetic goals
- But can also impact housing/housing affordability....
 - Exclude or limit new residential development
 - Incentivize higher-end housing units; make workforce housing less financially feasible for builder
 - Lot Cost + Cost of Development Approval + Construction Cost
 - Restrict density; innovative subdivision designs

Other Impediments

- Labor Shortages
- Construction Materials
 - Supply Chain / Delivery Times
 - Prices
- NIMBY
 - “Not In My Back Yard”